

~~SECRET~~

59

NOT RELEASABLE TO
FOREIGN NATIONALS

INTELLIGENCE MEMORANDUM

PRODUCTION, RESERVES, AND EXPORTS OF SOVIET GOLD

CIA/RR IM-457

10 October 1957

WARNING

THIS MATERIAL CONTAINS INFORMATION AFFECTING THE NATIONAL DEFENSE OF THE UNITED STATES WITHIN THE MEANING OF THE ESPIONAGE LAWS, TITLE 18, USC, SECS. 793 AND 794, THE TRANSMISSION OR REVELATION OF WHICH IN ANY MANNER TO AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

NOT RELEASABLE TO
FOREIGN NATIONALS

~~SECRET~~

S-E-C-R-E-T

CONTENTS

	<u>Page</u>
Summary and Conclusions	1
I. Introduction	3
II. Pattern of Gold Sales	4
A. Motivation for Recent Sales	5
B. Other Postwar Sales	7
C. Prewar Sales	8
III. Gold in Intra-Soviet Bloc Settlements	11
IV. Gold and Its Internal Uses	12
A. Gold and the Ruble	12
B. Domestic Industrial and Other Uses	14
V. The Gold Industry	15
A. History and Development	15
B. Production	16
VI. Gold Reserves	19

Appendixes

Appendix A. Statistical Tables	21
Appendix B. Source References	23

Tables

1. Soviet Gold Sales and Balances of Trade, 1953-56	8
2. Soviet Foreign Indebtedness, Selected Years, 1924-38	10
3. Reported Soviet Gold Loans, Selected Years, 1947-56	12

S-E-C-R-E-T

	<u>Page</u>
4. Estimated Soviet Gold Production, 1927-55	18
5. Estimated World Gold Production, 1948 and 1950-56	22
6. Estimated World Gold Holdings, December 1956 . .	22

Chart

Following Page

USSR: Gold Exports, Production, and Balance of Trade, 1920-38	8
--	---

- iv -

S-E-C-R-E-T

CIA/RR IM-457
(ORR Project 42.1657)

S-E-C-R-E-T

PRODUCTION, RESERVES, AND EXPORTS OF SOVIET GOLD*

Summary and Conclusions

The reappearance of the USSR as a substantial seller of gold in Free World markets has given rise to speculation regarding the motivation of such sales and the implications of Soviet gold policy in general. It is fairly evident that the recent Soviet gold sales, which are estimated to have totaled US \$330 million** during January 1956 - April 1957, cannot be explained simply in terms of the normal replenishment by the USSR of its foreign exchange reserves. The size of the sales and the urgency with which they appear to have been concluded in November and December 1956 suggest that their primary motivation was a result of the political upheavals in Soviet-dominated Europe. The fact that similar peak sales followed hard upon the June 1953 uprising in East Berlin provides a parallel not easily dismissed. It is not unlikely that the economic assistance granted to the European Satellites in 1953 and 1956 might well have provided an unforeseen strain on Soviet foreign exchange reserves (traditionally kept at a minimum level consonant with "maneuverability" in foreign trade), which, when compounded by the large Soviet purchases of consumer goods during 1953-54 and the abnormally heavy purchases of raw materials and semiprocessed goods in the sterling area during 1956, provided the impetus for the flows of Soviet gold.

The apparent reluctance with which the USSR employs gold to settle its international accounts demonstrates that, at least within the limits prescribed by its export capability, the country strongly prefers to balance imports with merchandise exports. Nevertheless, Soviet gold resources are relied upon as an integral part of Soviet foreign exchange reserves and operate as a fund out of which temporary disequilibriums in the Soviet balance of payments with the Free World can be met. The prewar years show a striking correlation between Soviet gold exports and the deterioration of the Soviet balance

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 September 1957.

** Dollar values in this memorandum are given in terms of current US dollars.

S-E-C-R-E-T

S-E-C-R-E-T

of trade. The absence of any such positive correlation in the post-war period reflects, in part, a growing Soviet export capability which perhaps has obviated the necessity for any large-scale gold financing as a normal part of Soviet foreign trade.

Although gold is primarily regarded in the USSR as a means of international payment, it clearly does have subsidiary domestic uses. Presumably the Soviet ruble enjoys a 25-percent gold backing, and appreciable quantities of gold are employed in industry and in the fine arts.

Although considerations of doctrine do not prevent the USSR from using gold either to settle moderate import surpluses or to extend economic assistance to friendly nations, it appears unlikely that the country will resort to gold financing on any large and permanent scale. If this assumption is correct, it is still necessary to account in some way for the inordinately large gold reserve of the USSR, estimated to be \$4 billion, and for its annual gold production, valued at approximately \$175 million.

One possibility is that the USSR has thus far refrained from any large-scale diminution of its sizable gold reserve because of its belief in the inevitability of a major capitalist crisis during which Soviet gold stocks could be employed with telling effect. It has often been suggested that the USSR may dump gold on the world market in an attempt to disrupt further already dislocated Free World economies.

If the USSR does intend to employ its gold reserves as a weapon of economic warfare, Soviet economic writers are obviously reluctant to discuss the matter. It appears unlikely, however, that the USSR seriously harbors any such plan. Any economic dislocations which would result from Soviet dumping would be merely temporary, at most, in view of existing national and international devices to insulate Free World economies from such contingencies. Furthermore, if such a policy were vigorously pursued, it could conceivably bolster Free World economies through a reinforcement of foreign exchange reserves and might serve to depress the price of gold to the great disadvantage of the USSR, itself a major gold producer.

The rationale for the large gold reserves of the USSR might be found in the peculiar, almost mercantilist preeminence which it attributes to its store of precious metals, most particularly to its

- 2 -

S-E-C-R-E-T

S-E-C-R-E-T

gold reserve. This psychological attachment to gold, however, may be motivated by several more practical considerations. In the light of recent Satellite manifestations of political and economic independence, it must be assumed that the emphasis on large state reserves as a protective buffer against the economic encroachments of world capitalism has not measurably abated. Soviet gold reserves, according to the Soviet economist Notkin, still "provide the insurance necessary to protect the USSR from major shifts in international market conditions, the possibility of partial or general economic and financial blockade, the possibility of crop failure within the country, and the possibility of direct armed assault upon the USSR." ¹/_{*} To a lesser extent, the gold reserves of the USSR have provided useful grist for its propaganda machine. This identification of wealth with gold has enabled the USSR not only to demonstrate its extreme solvency to hesitant Free World businessmen but also to prove both to neutralist Asians and to faltering Satellites the efficacy of the Communist system.

I. Introduction.

When we conquer on a world scale, I think we shall use gold for the purpose of building public lavatories in several of the large cities of the world But, however "just," useful, or humane it would be to utilize gold for this purpose, we nevertheless say: Let us work for another decade or so with the same intensity and with the same success as we have been working in 1917-21, only on a wider field, in order to reach the stage when we can put gold to this use. Meanwhile, we must save the gold in the RSFSR, sell it at the highest price, buy goods with it at the lowest price. "When living among wolves, howl like the wolves." ²/

* For serially numbered source references, see Appendix B.

S-E-C-R-E-T

S-E-C-R-E-T

Thus did Lenin serve notice that, until the triumph of socialism had been achieved on a worldwide scale and as long as the international economic relations of the USSR were conducted in a capitalist environment, the USSR would utilize its gold resources in a manner similar to that of its non-Communist neighbors.

The truly "capitalist" preeminence which the USSR has consistently attributed to its gold resources shows that this Leninist formula for Soviet gold policy has not been measurably altered in the ensuing years -- the country exhibits an attachment to gold which is almost mercantilist in concept and is virtually unequalled among Free World nations. Some of the major determinants and implications of Soviet gold policy are explored in this memorandum.

II. Pattern of Gold Sales.

In recognition that "short-term discrepancies between income and expenditure are not impossible even in the balance of payments of the USSR," ^{3/} Soviet gold resources are relied on as an integral part of Soviet foreign exchange reserves and operate as a fund out of which temporary disequilibriums in the Soviet balance of external payments with the Free World can be met. Soviet sales of gold, however, remain an uncertain factor in Free World markets, as these sales appear to be dependent upon the level of Soviet gold and foreign exchange reserves, Soviet willingness to employ gold as payment for net commodity imports, and the extent to which the USSR will assume the foreign exchange obligations of the European Satellites.

The apparent reluctance with which the USSR has employed gold to settle its international accounts shows that it prefers to balance imports with merchandise exports. This position was reaffirmed in a recent textbook on foreign trade which states: "The Socialist state aims at balancing imports with exports, since only such a balance can, in the long run, provide a healthy basis for international trade." However, "gold and foreign exchange have sometimes been used if the need arose for urgent imports of certain commodities and if export commodity resources could not be mobilized fast enough for such imports." ^{4/}

Soviet economic writers take great pains to state explicitly that Soviet gold sales are not automatic responses to balance of payments deficits. Such sales, they explain, are necessarily

- 4 -

S-E-C-R-E-T

S-E-C-R-E-T

conditioned by one or both of the following circumstances: (1) the use of gold for the settlement of Soviet international accounts may be undesirable in those cases where the official price of gold in Free World markets is considered below its "actual" value, as the USSR believes to have been the case since World War II, or (2) when conditions on the capitalist market are unfavorable for the USSR -- that is, an adverse turn in the Soviet terms of trade -- it may be more advantageous for the USSR to cancel its obligations through credits extended by individual capitalist countries and through currency obtained from the sale of gold rather than from the sale of commodities. It is perhaps because the USSR has in the past been forced too often to rely more upon its bountiful gold resources than its much-vaunted export capability in the settlement of its international accounts that Soviet writers manifest so extreme a sensitivity over the possible interpretation that all Soviet gold sales are indicative of an unfavorable payments balance.

A. Motivation for Recent Sales.

The reappearance of the USSR as a substantial seller of gold in international bullion markets has given rise to much speculation regarding the motivation of such sales. It is now quite clear that the heavy Soviet gold exports (reported to be \$150 million in 1956 and estimated to be \$180 million during January-April 1957 5/) cannot be explained simply in terms of the normal replenishment by the USSR of its sterling reserves. Although sales in the first half of 1956 differed little from those during comparable periods in 1954 and 1955, the offerings during the last months of 1956 and the first quarter of 1957 were reminiscent of the major sales during 1953.

The urgency with which the sales were concluded in November and December 1956 suggests two major factors as the primary motivation of the sales: (1) the hard currency loans to the European Satellites following recent political upheavals and (2) the abnormally heavy Soviet purchases of raw materials and semiprocessed goods in the sterling area during 1956.* T.T. Ivanov, Chief of Soyuzpromexport, the organization responsible for foreign sales of Soviet gold, had stated in early October that there would be no more sales of gold by the USSR in 1956. 6/

* Soviet purchases from the UK in 1956 registered an increase of 75 percent above the level of 1955, giving rise to a small (although unique) trade deficit with the UK in 1956.

S-E-C-R-E-T

Khrushchev's disclosure at the XXth Party Congress that the USSR had thus far extended to countries of the Soviet Bloc credits totaling \$5.25 billion, along with subsequent announcements of long-term credit extensions of more than \$1 billion (including \$158 million in gold and foreign exchange) to the European Satellites since 1 January 1956, heralded a new and well-publicized Soviet program of economic aid to the European Satellites. The reason for this new Soviet move is now fairly evident. The USSR had either to help alleviate the acute shortage of foreign exchange and consumer goods which plagued the European Satellites or suffer a recurrence of the political unrest to which that shortage had already contributed in East Germany, Poland, and Hungary. The USSR may have felt it politically expedient to appear more sympathetic to the economic needs of the Satellites in view of its announced policy of economic assistance to non-Communist countries.

On his arrival in London in early December 1956 to negotiate for the sale of Soviet gold, Ivanov stated that the large-scale gold sales were caused by events in Eastern Europe and that the USSR required currency to meet debts of the Satellite countries. 7/ This statement is further evidence that the USSR is the "benefactor" which made it possible for Hungary to meet its large commercial debts in early 1957.

At the time of the Hungarian uprising it was estimated that the outstanding commercial debts of Hungary to the Free World amounted to at least \$140 million. Hungarian bank officials were encountering increasing difficulties in obtaining foreign short-term commercial credits, and most Western European export credit insurance departments were plainly reluctant to offer cover on Hungarian trade. 8/

Since the October uprising, however, Hungary has found approximately \$56 million for trade debt repayments. Less than 10 percent of these debts were reportedly paid from small Hungarian deposits in various Western European banks, but more than 90 percent were liquidated through payments made by the Banque Commerciale de L'Europe du Nord. Considering the state of Hungarian export trade over this period,* it may reasonably be assumed that the Banque Commerciale received the money from the proceeds of the sales of Soviet gold. 10/

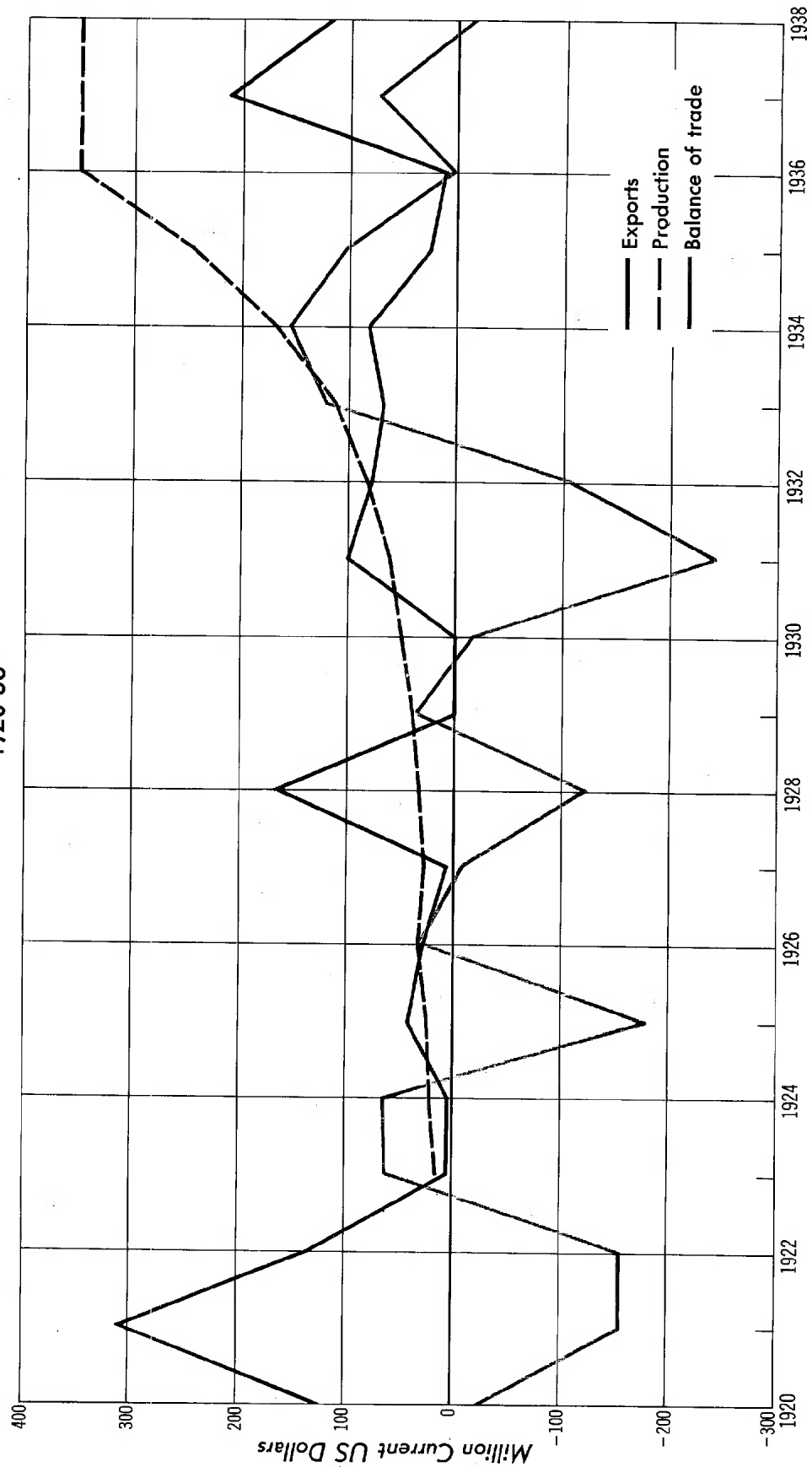
* Hungary registered an import surplus of almost \$9 million during the fourth quarter of 1956 compared with an export surplus of \$87 million for the comparable period of 1955. 9/

- 6 -

S-E-C-R-E-T

SECRET

USSR
GOLD EXPORTS, PRODUCTION, AND BALANCE OF TRADE
1920-38



SECRET

26241 9-57

S-E-C-R-E-T

Table 1

Soviet Gold Sales and Balances of Trade
1953-56

Million Current US \$ <u>a/</u>				
Year	Sales of Gold	Balance of Trade		
		Free World	UK	Other Sterling Area
1953	150	-107	+65	-56
1954	93	-147	+63	-73
1955	70	-46	+65	-28
1956	150	-57	-25	-23
a. Adjusted for costs of transportation.				

case followed hard upon manifestations of Satellite discontent, is not easily to be dismissed. It is not unlikely that the economic assistance granted to the European Satellites in 1953 and 1956 might well have provided an unforeseen strain on Soviet foreign currency reserves necessitating the urgent sale of gold.

C. Prewar Sales.

Gold shipments by the USSR in the prewar period appear to have served the traditional purpose of covering a deficit in its international accounts. The correlation between the export of Soviet gold and the deterioration of the Soviet balance of payments on current account is shown in the accompanying chart.*

The large sales of Soviet gold during 1920-23 may be attributed primarily to the economic blockade imposed on the RSFSR as an answer to the October Revolution and the peace treaty of Brest-Litovsk. The blockade, coupled with the impossibility of rapidly

* Following p. 8. Soviet balances of trade in this chart are from 12/. Ruble values have been recalculated on the basis of 5.3 rubles to US \$. Gold exports are from 13/. For figures on Soviet gold production, see Table 4, p. 18, below.

S-E-C-R-E-T

S-E-C-R-E-T

Also of significance in this connection has been the rather abrupt change in the pattern of Soviet gold sales in late 1956. Most of the Soviet gold sales before November 1956 were made, not in London,* where the USSR has traditionally obtained the bulk of its sterling or dollars at the official rate, but in commercial centers such as Zurich, where the USSR obtained transferable sterling at a discount. The sale of approximately \$75 million worth of gold on the London market (largely for dollars) in the period December 1956 - February 1957 is probably a reflection of insufficient short-term demand in Zurich for gold in this quantity. London is by far the largest market, and big sales would be more easily accommodated there.

B. Other Postwar Sales.

It was not until 1953 that the USSR reemerged in the postwar period as a major exporter of gold. The absence of any significant sales during 1946-53 might be attributed, at least in part, to the depressed price of gold in the postwar years and the extensive exploitation of Satellite resources and foreign reparations which, in the form of unrequited imports, obviated the necessity for any large-scale Soviet gold financing.

Perhaps the most plausible motivation for the large Soviet gold sales in 1953-54, as shown in Table 1,** was the anticipation of a need to purchase quantities of goods in the Free World in order to implement the increased goals in consumer goods set for the Soviet population by the Malenkov regime. Although the ambitious objectives of the Malenkov import drive were soon proscribed by the accession to power of Khrushchev, imports of consumer goods from the Free World did show a spectacular, if short-lived, rise. Such imports of consumer goods in 1954 were more than twice the level of 1952 and undoubtedly contributed to the peak Soviet import surplus with the Free World in 1954. It was apparently in anticipation of this deficit that the USSR decided to bolster its sterling balances in London by selling gold.

To what extent the Soviet gold sales in 1953-54 were related to the East German uprising in June 1953 is still unclear. The parallel of Soviet gold sales in both 1953 and 1956, which in each

* Only 37 percent of Soviet gold sales were reportedly made in London during 1956, a small amount in comparison with the percentages of previous years. 11/

** Table 1 follows on p. 8.

S-E-C-R-E-T

expanding Soviet export capability, left the fledgling state with only one alternative -- to pay for its needed imports in gold. The largest banks in the UK, France, and the US, however, refused to accept gold of Soviet origin either in coin or in ingots. The Soviet gold which did manage to filter into Europe, first through Estonia and then through Sweden and other countries, was exported often at a discount of as much as 15 to 25 percent. The gold blockade was lifted only after the conclusion by the RSFSR of a trade agreement with the UK in March 1921, concurrent with the adoption of the liberal New Economic Policy.

The determined Soviet quest for adequate gold and currency reserves during the formative years of the Soviet state was frustrated by a chronic payments deficit on international account and an inability to expand domestic gold production rapidly, as shown by the repeated governmental and Party directives stating the necessity of accumulating currency reserves and of achieving a favorable balance of trade.

The resolution of the XVth Party Conference, which was held in 1926, noted that the Party directives of the previous Party congresses regarding a favorable balance of foreign trade had not been carried out and pointed out that "with all firmness the conference emphasizes the necessity of such a quantitative relationship between exports and imports and would definitely guarantee a favorable balance of trade and payments to an extent that would ensure the accumulation of currency reserves." 14/

Instructions on accumulating currency reserves were also given in December 1927 by the XVth Party Congress, which considered this problem together with directives for the First Five Year Plan (1928-32) and the Party's economic policy. The decision of the XVth Party Congress on this problem stated:

On the basis of the general course of foreign trade (maximum trade relations in order to strengthen our production base and grow more independent of the capitalist world), it is necessary to devise a plan for foreign trade which will assure a favorable balance. An active balance together with an increase in the domestic mining of gold is the principal source for the accumulation of currency reserves, which is especially

- 9 -

S-E-C-R-E-T

S-E-C-R-E-T

necessary in connection with the deterioration of relations between the capitalist world and the USSR and the possibility of a poor harvest or crop failure. 15/

The scarcity of exportable commodities was further aggravated during the First Five Year Plan and the depression, when prices of raw materials and agricultural products -- bulk of Soviet exports -- drastically declined in the world market. So urgent, however, was the need for imports to carry out the First Five Year Plan that imports were expanded in spite of the impossibility of paying fully for them out of the receipts derived from current export trade. Instead of the favorable balance of trade so fervently called for by almost every Party pronouncement, the actual developments in Soviet export and import trade resulted in a persistently unfavorable trade balance between 1927 and 1932 (1929 excluded) and contributed to the growing indebtedness of the USSR shown in Table 2.

Table 2

Soviet Foreign Indebtedness a/
Selected Years, 1924-38

Million Current US \$			
<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1924	80.5	1930	394.3
1925	109.4	1931	721.6
1926	157.3	1934	232.0
1927	201.5	1935	71.6
1928	250.0	1936	44.3
1929	317.0	1938	0
<u>a. <u>16/</u></u>			

Debts had to be paid, and a favorable balance of trade was therefore essential. All previous efforts to augment the export capability of the USSR had met with little success in the light of

S-E-C-R-E-T

S-E-C-R-E-T

the adverse terms of trade on the world market and the ambitious growth rates of the domestic Five Year Plan. The solution now was to be found in a drastic curtailment of Soviet imports.

The conclusion of the First Five Year Plan, the Soviet policy of restricting imports, the improvement in its terms of trade, and the considerable increase in gold production which became available for a rapid repayment of foreign indebtedness were factors which contributed to a marked improvement in the Soviet balance of payments. The USSR was able to achieve an active balance of trade for every year between 1933 and 1938 and accumulated fairly substantial foreign exchange balances, particularly in pounds sterling.

A variety of explanations has been offered for the apparent anomaly of substantial Soviet gold exports in 1937 and 1938, primarily to the UK, with which the USSR had enjoyed a relatively large export surplus in both years. It has been suggested that such sales stemmed from a Soviet desire to distribute resources among foreign financial centers where they would be available, in the event of an emergency, for the purchase of needed arms and supplies. A more plausible explanation may be found, however, in the Soviet assertion that the sum of more than \$500 million in gold transferred to the USSR for safekeeping by the Spanish Republican government in October 1936 was extensively drawn upon by the Loyalist forces, the last such drawing having been effected on 8 August 1938. 17/

III. Gold in Intra-Soviet Bloc Settlements.

Gold is not a significant factor with respect to intra-Soviet Bloc settlements. Because the total cost of Soviet deliveries to each of the Satellites in the course of a year is planned to be equal to the sum of deliveries made by each of these countries to the USSR, the amounts credited by Gosbank to the clearing accounts of banks of specified countries should be equal, at the end of the year, to the amounts which each bank credited to the clearing account of Gosbank. In such a way the total reciprocal claims between countries, resulting from the exchange of goods between them, are canceled out by bookkeeping entries, without the transfer of gold or currency. If imbalances occur in payments balances among the Satellites, a balance is achieved by credit extension or by subsequent goods deliveries.

- 11 -

S-E-C-R-E-T

S-E-C-R-E-T

Since World War II, however, gold has been increasingly used by the USSR as a medium of economic assistance. Evidence of this use of Soviet gold has been the economic aid extended to "friendly" countries in the form of gold or of gold and foreign currency loans, as shown in Table 3.

Table 3

Reported Soviet Gold Loans a/
Selected Years, 1947-56

Million Current US \$		
<u>Country</u>	<u>Year</u>	<u>Amount</u>
Poland	1947	28
Czechoslovakia	1948	120 <u>b/</u>
Finland	1954	10
	1955	10
Yugoslavia	1956	30 <u>c/</u>
Poland	1956	13

a. 18/

b. Estimated.

c. An undisclosed portion of this sum was in gold and the remainder in freely convertible currency.

IV. Gold and Its Internal Uses.

A. Gold and the Ruble.

During the period of "War Communism" (1918-21) the USSR experienced a severe inflation which wiped out the major part of the value of the old Russian currency. This period was also marked by an attempt to build up a new economic order in which money would be superfluous, and a special commission of the Supreme Economic Council was appointed to substitute a labor unit of account for the capitalist monetary unit of account. 19/ By the end of this period, however, the value of currency had fallen to about one three-hundred-thousandth of the 1914 value, and the regime was threatened by a total economic collapse. 20/

S-E-C-R-E-T

The introduction of the New Economic Policy placed the whole question of money and gold in a different perspective. The IXth All-Russian Congress of Soviets, held late in 1921, instructed the Peoples Commissariat of Finance to assume the task of "restoring a sound monetary system of currency on a gold basis." 21/ This raised the question of gold reserves.

In 1922 the USSR introduced a new Gosbank currency called chervonets, which represented 119.4792 grains of fine gold and was primarily for use in large transactions. Furthermore, it was backed by gold, other precious metals, and stable foreign currencies to the extent of 25 percent of the value of notes in circulation. However, the simultaneous circulation of two types of currency, the new type gold-backed, led to a rapid depreciation of the several types of paper rubles in circulation. By the end of 1923, paper rubles exchanged in the free market for chervonets rubles in the ratio of 3,075,000,000 to 1. As a result, a monetary reform in early 1924 took the old paper rubles out of circulation and substituted a new treasury ruble valued at one-tenth of 1 chervonets, but not backed by gold. 22/

Since 1924 there have been two types of currency in the USSR: the banknote (chervonets) and the treasury note. Gosbank prints and distributes notes in denominations of 10 or more rubles. These are the notes for which gold backing is required. In addition, treasury notes in denominations of 1, 3, and 5 rubles and coins are issued by the Ministry of Finance. Treasury notes have no reserve requirements but may be issued in an amount not larger than the banknote issue. In practice, 92 percent of the currency in circulation in mid-1956 is reported to have been banknotes. 23/

Thus it may be argued that Soviet currency is legally based on gold, but actually it is on an inconvertible paper standard. The ruble has not been redeemable in gold since 1926, and the export and import of Soviet currency has been forbidden. Furthermore, the gold reserve is not and probably never was expected to serve as an automatic device for controlling the amount of credit and keeping the domestic price level in line with that of other nations, as it does in capitalistic countries under the gold standard. Instead, the ruble is an entirely internal currency. Although Gosbank fixes an exchange value for the ruble in terms of foreign currencies, this exchange rate is merely an accounting device for calculating foreign trade transactions denominated in foreign currency and has no bearing

- 13 -

S-E-C-R-E-T

S-E-C-R-E-T

on the domestic purchasing price of the ruble. Currently the ruble is valued by a decree at 0.222168 grams of fine gold, or the equivalent of \$0.25.

The legal requirement of gold backing for banknotes, however, does represent an important use for Soviet gold reserves. New gold production is initially purchased by the Ministry of Finance from the gold mining industry, and sufficient gold is then sold to Gosbank to act as backing for new banknotes added to circulation. The remainder is held by the Ministry of Finance. Currency in circulation thus does not depend on the amount of gold held by Gosbank; rather, the amount of gold held by Gosbank depends on the amount of currency in circulation.

Since 1937, no data have been published on Soviet bank and treasury notes in circulation. The currency in circulation in 1948, however, has been estimated on the basis of related banking and wage data to be about 30 billion rubles. 24/ Roughly \$1.5 billion of gold and foreign exchange would have been required as backing for the banknote part of this currency.

B. Domestic Industrial and Other Uses.

An appreciable quantity of gold is used in the USSR in industry and in the fine arts, and a small amount is hoarded, but these amounts are difficult to estimate.

A Soviet publication gives complete instructions for accounting for gold used for industrial purposes. These include:

Gold as a raw material and in semifinished products (in ingots, strips, alloys, and solder); in laboratory and plant equipment and articles of all kinds; in electrolytes, reagents, salts; ... in scrap, factory wastes, cutting, filing, spatters, slag, etc. 25/

Attention is also called in this publication to a number of types of gold used for jewelry and dentistry. In addition, a number of forms are given which use as examples gold articles or pieces for art or industrial use weighing up to 5,000 grams. 26/ It may be concluded, therefore, that gold is used for a sizable variety of artistic and industrial purposes, sometimes in relatively large quantities.

- 14 -

S-E-C-R-E-T

S-E-C-R-E-T

According to two US sources (one a competent economist who has spent a number of years in Moscow and the other an internationally recognized expert on gold), Soviet uses of gold for jewelry, dental, military, and government (metals) purposes probably are as substantial or nearly as substantial as in the Free World. 27/ A recent report, for example, indicates that genuine gold is being used to gild St. Basil's Cathedral. 28/

Gold is also apparently used for hoarding. Gold now is sold freely in "wafer-sized pieces" by state stores at a price last reported of about 90 rubles per gram (about 2,800 rubles per troy ounce*). At the official exchange rate, this amounts to more than \$700 per ounce. 29/ It is reported that gold transactions in the Moscow black market in 1944-47 were so obvious that the government could not have been unaware of them. 30/ Although gold is ostensibly sold for dental purposes and perhaps for the making of jewelry, the free sale at a high price would indicate that a major aim of the government is to reduce purchasing power in the hands of consumers.

V. The Gold Industry.

A. History and Development.

The determined Soviet quest for adequate gold and currency reserves led to the rapid expansion of the Soviet gold industry, and by 1933 the USSR had become the second largest gold producer in the world (after the Union of South Africa).** Expansion was initiated directly by Stalin in 1927, when an All-Union trust, Glavzoloto (Main Administration of the Gold and Platinum Industry), was formed under his personal supervision. 31/ The timing of this drive to expand gold production was apparently associated with the need for gold to help pay for essential imports under the early Five Year Plans. As a result, the gold industry had a very high priority throughout the rest of the prewar period.

During the First Five Year Plan a number of important underground gold mines in the Urals, Kazakhstan, and the Transbaykal came into production. Increased production in the early 1930's was largely due to these new mines.

* Ounce figures are given in troy ounces of fine gold throughout this memorandum.

** For estimated world gold production and world gold holdings, see Tables 5 and 6, Appendix A, p. 22, below.

S-E-C-R-E-T

S-E-C-R-E-T

The rapid increase in gold production in the middle and late 1930's, on the other hand, was primarily due to placer mining. Part of this increase was the result of the success of the Soviet government in inducing a large influx of private prospectors into the gold industry. This encouragement of private enterprise is a reflection of the priority accorded the gold industry in this period. This increase is also attributable to the operations of Dal'stroy, an organization established in 1932 under the MVD to exploit the mineral resources of Northeast Siberia with forced labor. This organization was completely separated from Glavzoloto.

Little is known about the wartime activities of the gold industry except that it was not proscribed as was gold mining in many other parts of the world. It is probable, however, that a large part of the Dal'stroy gold mining labor force was transferred to construction and other types of mining. 32/ Similarly, some of the most important mines under Glavzoloto are reported to have been closed. 33/

The USSR had good reason not to waste its manpower and machinery on gold production during the war. Its imports consisted almost entirely of lend-lease goods. The limit of those deliveries was set by the capacity of the Allied convoys and of the transport facilities through Iran. Had the USSR attempted to buy large amounts of other imports, the total quantity of goods reaching it could not have been increased. Gold production, accordingly, could have served little purpose in fighting the war.

The gold industry in the postwar period is believed never to have regained its prewar level of output. This is probably one reason for the virtually complete blackout on postwar information about the gold industry, although a state secrecy law of June 1947 may also be a factor. There have been no announcements of great successes or even of increases in output above the level of the previous year. Gold production in recent years is estimated to be about one-half the 1940 level, or about 5 million ounces.

B. Production.

The USSR has released no official statistics on its gold production in terms of quantity since 1927. Production in that year

- 16 -

S-E-C-R-E-T

S-E-C-R-E-T

amounted to 809,987 ounces, as shown in Table 4.* Estimates made by various authorities for 1927-40 were based largely on data which gave the percent of change in production from previous years, as released periodically by Soviet sources. These data indicated a Soviet gold production in the late 1930's of about 5 million to 6 million ounces a year.

These estimates, however, were almost certainly too low because the percentage figures on which they were based only covered production by Glavzoloto. The very existence of another major gold producer, Dal'stroy, was a closely guarded secret at the time the estimates were made. Only in the postwar years has information become available on Dal'stroy's operations.

In the middle and late 1930's, however, some statements on the size of Soviet gold production by a Soviet official should have indicated that the estimates of 5 million to 6 million ounces were probably low. In 1935, Serebrovskiy, the head of Glavzoloto, stated several times that the USSR would become the largest gold producer in the world within a period of 2 to 5 years. ^{34/} (South African production had amounted to 10.48 million ounces in 1934.) In March 1937, Serebrovskiy stated that gold production in 1936 had exceeded 10.6 million ounces. ^{35/} It is believed that Dal'stroy's gold production is the main reason for the difference between this figure and the estimate based on percentage data. Dal'stroy's gold production is estimated to have reached a level of about 5 million ounces by 1936 and to have continued at this level until 1941. Total Soviet gold production, accordingly, is estimated to have been in the vicinity of 10 million ounces a year during 1936-40.

There are a number of reasons why gold production failed to recover after World War II. In the first place, prewar production costs were extremely high. Average cost was reported by first-hand observers to have been 15 rubles per gram of fine gold in 1935-36. ^{36/} If costs in the gold industry had increased in line with the increase in prices of other Soviet nonferrous metals between 1936 and 1949, when a price reform was supposed to have brought costs and prices in line, ^{37/} the average costs of Soviet gold production in 1949 would have been about 60 rubles per gram. On the world market a fine gram of gold was worth only about \$1.12, or less than 6 rubles at the official exchange rate. In the second place, the purchasing power of

* Table 4 follows on p. 18.

S-E-C-R-E-T

S-E-C-R-E-T

Table 4

Estimated Soviet Gold Production a/
1927-55

Year	Thousand Troy Ounces of Fine Gold			
	Glavzoloto	Dal'stroy	Total	Year
1927	810		810	1942
1928	900		900	1943
1929	1,100		1,100	1944
1930	1,400		1,400	1945
1931	1,700		1,700	1946
1932	2,000	310	2,300	1947
1933	2,600	600	3,200	1948
1934	3,600	1,200	4,800	1949
1935	4,500	2,500	7,000	1950
1936	5,300	5,000	10,000	1951
1937	5,300	5,000	10,000	1952
1938	5,300	5,000	10,000	1953
1939	4,800	5,000	9,800	1954
1940	5,800	5,000	11,000	1955
1941	4,000	4,000	8,000	
Total				
				135,000 b/

a. Figures through 1940 have been rounded to 2 significant digits; after 1940, to 1 significant digit.

b. US \$4.7 billion at US \$35 per ounce.

- 18 -

S-E-C-R-E-T

S-E-C-R-E-T

gold in world markets has declined as a result of inflation to roughly one-half the prewar level. As a result, gold production in the rest of the world (excluding the Union of South Africa, where costs are reduced because uranium is obtained as a byproduct) declined by about 40 percent from 1938 to 1955 in spite of the introduction of gold mining subsidies by a number of countries. Finally, Soviet gold reserves at the end of World War II were already so substantial that the incentive to produce at almost any cost had disappeared.

In the postwar years, gold production by Glavzoloto is estimated to have increased slowly from the wartime low, partly as the result of miners returning from the war and partly as the result of increasing production of gold as a byproduct in the production of copper, lead, and zinc. Gold production by Dal'stroy, on the other hand, is estimated to have remained at a low level as the result of the postwar emphasis in this area on uranium and other new strategic ores, the depletion of the richest deposits, and the various forced labor amnesties after the death of Stalin.

VI. Gold Reserves.

Since World War II the consolidation of Soviet military power, the rapid technological development of Soviet industry, and the creation of a Communist trading area apparently made the prewar quest for the security of large gold and currency reserves less imperative. "Under present conditions," states a recent Soviet textbook, "when the economic and political might of the Soviet Union is undergoing a gigantic growth, when it is no longer a socialist state surrounded by antagonistic capitalist countries, when two parallel world markets exist, and when the countries of the peoples democracies, friendly to the USSR, have every year a greater share of its trade, the significance and function of currency reserves have changed." 38/

In contrast with the constant urgings for a favorable trade balance during the formative years of the Soviet state, the USSR today shows a strong preference for balancing imports with merchandise exports. The Soviet foreign trade journal Vneshnyaya trgovlya states that "In trade with all countries the USSR does not strive to sell more commodities than is necessary for the payment of its purchases and the covering of its other foreign trade obligations." 39/

- 19 -

S-E-C-R-E-T

S-E-C-R-E-T

The relatively minor contingencies which in the past have called forth Soviet gold sales for required convertible currencies have led to much Free World speculation as to the rationale behind the size of Soviet currency reserves. Apparently, in spite of its sizable gold holdings, the USSR has been wary of augmenting its foreign currency reserves beyond a minimum predetermined to afford it the flexibility and maneuverability in foreign trade which it so highly prizes. Deep-seated suspicion of Free World intentions and lack of confidence in the "constant currency chaos of the capitalist world" appear to be the major factors which inhibit any intention on the part of the USSR to expand its foreign currency reserves. Although it is true that the gold portion of the foreign exchange reserve is exposed to the danger of a drop in the world price of gold, any significant decline appears remote in view of the current US policy with respect to gold. It is, rather, the dangers implicit in large holdings abroad of foreign currencies -- that is, the possibilities of devaluation, blocked accounts, and the like -- from which the USSR would appear to be relatively unprotected. From this stems the constant admonition from Soviet economists that foreign currency reserves of the USSR must not exceed a prescribed volume consonant with maneuverability in foreign trade.

The absence of official returns on gold movements, the difficulties of estimating Soviet gold production, and the doubtful nature of the data on the gold reserve of Gosbank as published irregularly before World War II, all make tenuous any estimate of the current level of Soviet gold reserves. Estimates have suggested, however, that the current gold reserves of the USSR total approximately \$4 billion. 40/

- 20 -

S-E-C-R-E-T

S-E-C-R-E-T

APPENDIX A

STATISTICAL TABLES

- 21 -

S-E-C-R-E-T

S-E-C-R-E-T

Table 5

Estimated World Gold Production a/
1948 and 1950-56

Million Current US \$ at US \$35 per Troy Ounce of Fine Gold								
Area	<u>1948</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>
Union of South								
Africa	405	408	403	414	418	463	511	556
USSR	140	140	140	175	175	175	175	175
Canada	124	155	154	157	142	153	159	154
US	71	80	66	67	69	65	66	64
All other <u>b/</u>	45	203	24	214	220	216	209	211
World total <u>b/</u>	<u>785</u>	<u>986</u>	<u>967</u>	<u>1,027</u>	<u>1,024</u>	<u>1,072</u>	<u>1,120</u>	<u>1,160</u>

a. 41/

b. Excluding Communist China, Bulgaria, Czechoslovakia, Hungary, Rumania, and North Korea.

Table 6

Estimated World Gold Holdings
December 1956

Holder	Million Current US \$
US	22,058
USSR	4,000
UK	1,800
Switzerland	1,676
Canada	1,103
West Germany	1,494
Belgium	928
Netherlands	844
IMF, EPU, and BIS <u>a/</u>	1,995
All other	5,702
World total <u>b/</u>	<u>41,600</u>

a. International Monetary Fund, European Payments Union, and Bank for International Settlements.

b. Excluding Communist China, Bulgaria, Czechoslovakia, Hungary, Rumania, and North Korea.

S-E-C-R-E-T

APPENDIX B

SOURCE REFERENCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

-
1. Notkin, A. Ocherki teorii sotsialisticheskogo vosproizvodstva (Essays in the Theory of Socialist Reproduction), Moscow, 1948, p. 62. U. Eval. RR 3.
 2. Lenin, V.I. Selected Works, vol 9, New York, 1943, p. 299. U. Eval. RR 2.
 3. Smirnov, A.M. Mezhdunarodnyye raschety i kreditnyye otnosheniya vo vneshney torgovle SSSR (International Accounts and Credit Relations in the Foreign Trade of the USSR), Moscow, 1953, p. 95. U. Eval. RR 2.

- 23 -

S-E-C-R-E-T

S-E-C-R-E-T

4. Smirnov, A.M., and Lyubimov, N.N. Vneshnyaya trgovlya SSSR
(Foreign Trade of the USSR), Moscow, 1954, p. 18, 102. U.
25X9A1 Eval. RR 2.
5. [REDACTED]
6. [REDACTED]
7. Ibid.
8. The Times, London, 5 Mar 57. U. Eval. RR 3.
9. CIA. FDD Translation no 636, Supplement to 1956 Hungarian Statistical Handbook: Important Data on the Period Oct-Dec 1956, 26 Apr 57, p. 27. OFF USE. Eval. RR 2.
10. The Times, London, 14 May 57. U. Eval. RR 2.
25X9A1 5 May 57. U. Eval. RR 2.
11. Bank for International Settlements. Press Review, no 69, 8 Apr 57, p. 2. U. Eval. RR 2.
12. Bakulin, S., and Mishustin, D. Vneshnyaya trgovlya SSSR za 20 let, 1918-1937 (Foreign Trade of the USSR for 20 Years, 1918-37), Moscow, 1939. U. Eval. RR 2.
13. Federal Reserve Bank of New York. Research Memorandum, Soviet Gold Reserves and Production, 27 Nov 53. C. Eval. RR 3.
14. KPSSSR v resolyutsiyakh i resheniyakh s"yezdov, konferentsiy i plenumov (CPSU in the Resolutions and Decisions of the Congresses, Conferences, and Plenary Sessions of the Central Committee), pt 1, Moscow, 1954, p. 309. U. Eval. RR 2.
15. Ibid., p. 456. U. Eval. RR 2.
16. Baykov, A. Soviet Foreign Trade, Princeton, 1946, p. 50. U. Eval. RR 2.
Prokopovicz, S.N. (edr). Quarterly Bulletin of Soviet-Russian Economics, no 3, Jan 40, p. 75. U. Eval. RR 3.
17. Pravda, 5 Apr 57. U. Eval. RR 2.
18. CIA. CIA/RR IM-433, Soviet Economic Assistance to the Sino-Soviet Bloc, 20 Aug 56. S/NOFORN.
NIS 26, USSR, sec 65, chap 6, Jan 57. S.
19. Arnold, A.Z. Banks, Credit, and Money in Soviet Russia, New York, 1937, p. 107-110. U. Eval. RR 2.
20. Livshits, F.D. Bankovskaya statistika (Banking Statistics), Moscow, 1948, p. 384. U. Eval. RR 2.
21. Yurovskiy, L.N. Currency Problems and Policy of the Soviet Union, London, 1925, p. 42. U. Eval. RR 1.
22. Arnold, op. cit. (19, above), p. 146-174. U. Eval. RR 1.

- 24 -

S-E-C-R-E-T

S-E-C-R-E-T

25X9A1

23. [REDACTED]
24. Holzman, F.D. Soviet Taxation, Cambridge, 1955. U. Eval. RR 3.
25. CIA. FDD. U-6432, 1 Sep 54, Accounting of Precious Metals in Industrial Enterprises. U. Eval. RR 2.
26. 25X9A1p. 7. U. Eval. RR 2.
27. [REDACTED]
28. New York Times, 7 Mar 54. U. Eval. RR 2.
29. 25X9A1
30. [REDACTED]
31. Serebrovskiy, A.P. Na zolotom fronte (On the Gold Front), Moscow, 1936, p. 227. U. Eval. RR 2.
32. International Monetary Fund Staff Memorandum, no 385, 3 Aug 49, Estimates of Soviet Gold Production, p. 10. C. Eval. RR 2.
33. Army, FEC. No 38185, 7 Apr 49. S. Eval. RR 2.
Army, 7707 ECIC. RT-587-51, 28 Jun 51. S. Eval. RR 2.
34. Za industrializatsiyu, 1 May 35, p. 1. U. Eval. RR 3.
Ibid., 28 Nov 35, p. 1. U. Eval. RR 3.
Ibid., 12 Dec 35, p. 3. U. Eval. RR 3.
35. Business Week, 13 Mar 37. U. Eval. RR 3.
36. CIA. OCI, Intelligence Digest, no 251824, nd. S. Eval. RR 2.
37. [REDACTED]
38. Smirnov and Lyubimov, op. cit. (4, above), p. 101. U. Eval. RR 2.
39. 25X9A1
[REDACTED]yaya trgovlya, no 4, 1952, p. 4. U. Eval. RR 2.
40. [REDACTED]
41. International Monetary Fund. International Financial Statistics, Jun 57, p. 21. U. Eval. RR 2.

25X1A5a1

- 25 -

S-E-C-R-E-T

S-E-C-R-E-T

NOT RELEASABLE TO
FOREIGN NATIONALS

NOT RELEASABLE TO
FOREIGN NATIONALS

S-E-C-R-E-T